REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

SHELTER LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2004

STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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Columbia, Missouri
June 12, 2006

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Shelter Life Insurance Company

hereinafter referred to as such, as Shelter Life, or as the Company. Its administrative office is located at 1817 West Broadway, Columbia, Missouri 65218, telephone number 573-445-8441. This examination began on June 6, 2005, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Shelter Life was made as of December 31, 2001, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2002, through December 31, 2004, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was conducted concurrently with the examinations of the Company's parent, Shelter Mutual Insurance Company (Shelter Mutual), and its affiliates, Shelter General Insurance Company (Shelter General), and Shelter Reinsurance Company (Shelter Reinsurance).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2004, through December 31, 2004. Information relied upon included attorney letters, tests of controls, and narrative descriptions of processes and controls.

COMMENTS – PREVIOUS EXAMINATION

The previous financial examination of Shelter Life was conducted by the MDI for the period ending December 31, 2001. Listed below are the comments, recommendations, and notes from the previous examination report, the Company's response, and the findings in the current examination.

Pooled Investments

Comment: It was noted that commercial paper investments of Shelter Mutual, Shelter General, and Shelter Life were commingled in a single investment account with Merrill Lynch. However, Shelter Mutual did not have a pooling agreement with its subsidiaries, as required by Section 379.083 RSMo (Investment Pools). The Company was directed to immediately submit a pooling agreement to the MDI for prior approval, as required by Section 379.083 RSMo, and ensure that the agreement complies with this statute.

Company's Response: The Company stated that it complied with the alternative option of establishing separate bank accounts for each entity.

Current Findings: The Company did not have any pooled investments, as of December 31, 2004.

Gross Premium Valuation

Comment: Based upon the recommendation of MDI's consulting actuary, Milliman USA, the Company was directed to perform a gross premium valuation for its individual accident and health (A&H) line of business. Any premium deficiency reserves that resulted were instructed to be calculated in accordance with SSAP No. 54 (Individual and Group A&H Contracts) and Appendix A-010 (Minimum Reserve Standards for Individual and Group Health Insurance Contracts) of the Accounting Practices and Procedures Manual.

Company's Response: The Company stated that its individual health business has been in run-off for several years with only a small number of policies remaining. Significant reserves were initially established when the decision was made to exit the business. Although sufficient reserves remain to satisfy future commitments, periodic gross premium valuations will be prepared substantiating reserve adequacy.

Current Findings: MDI's consulting actuary, Milliman, Inc., conducted a gross premium valuation to determine the reasonableness of the Company's individual A&H reserves. No concerns regarding the sufficiency of reserves were noted.

HISTORY

General

Shelter Life was incorporated on November 13, 1958 and was originally named M.F.A. Life Insurance Company. It was issued a Certificate of Authority and commenced business on March 2, 1959. The Company's name was changed to Shelter Life Insurance Company on July 1, 1981. The Company operates as a stock life and health insurer under the insurance laws of Chapter 376 RSMo (Life and Accident Insurance).

Capital Stock

Shelter Life is owned 100% by Shelter Mutual. The Company is authorized to issue 2,200,000 shares of common stock with a par value of $10 per share. As of December 31, 2004, 1,200,000 shares were issued and outstanding for a total capital stock balance of $12,000,000.

Dividends

The Company paid cash dividends of $12,000,000, $12,000,000, and $5,000,000 in 2002, 2003, and 2004, respectively, to Shelter Mutual.

Management

The management of the Company is vested in a Board of Directors that are appointed by the sole shareholder, Shelter Mutual. The Company's Articles of Incorporation and Bylaws specify that the number of directors shall be nine. The Board of Directors appointed and serving, as of December 31, 2004, were as follows:

Name and Address	Principal Occupation and Business Affiliation
James A. Offutt* Osage Beach, MO	Chairman, Retired Executive Shelter Insurance Companies
J. Donald Duello* Rocheport, MO	Vice Chairman, President and CEO Shelter Insurance Companies
Gerald T. Brouder Columbia, MO	President Columbia College
H. Marshall Chatfield Columbia, MO	Retired Executive Kansas City Life Insurance Company
Ann K. Covington* Columbia, MO	Attorney / Partner Bryan Cave, LLP
Andres Jimenez Madrid, Spain	Vice President and Chief Executive Officer Mapfre Re Compania de Reaseguros, S.A.
Raymond E. Jones** Columbia, MO	Executive Vice President and Secretary Shelter Insurance Companies
Don A. McCubbin Sturgeon, MO	Executive Vice President Shelter Insurance Companies
Barry L. McKuin Morrilton, AR	President Morrilton Area Chamber of Commerce

* The following changes occurred, effective November 19, 2005: Mr. Offutt retired and was replaced as a Board member by J. David Moore. Mr. Moore was elected as President and Chief Operating Officer. Mr. Duello was elected as the Chairman of the Board. Ms. Covington was elected as the Vice Chairman of the Board.

** Mr. Jones retired as an employee in April 2006, but remains a director.

Committees

The Bylaws require an Executive and Compensation Committee, Audit Committee, and an Investment Committee of the Board of Directors. The Bylaws also allow for other committees to be appointed by the Board of Directors as needed. As of December 31, 2004, the members of each committee were as follows:

Executive and Compensation Committee
Ann K. Covington, Chairman
J. Donald Duello
H. Marshall Chatfield
James A. Offutt
Gerald T. Brouder

Audit Committee
Barry L. McKuin, Chairman
Ann K. Covington
H. Marshall Chatfield

Investment Committee
J. Donald Duello, Chairman
Raymond E. Jones
Thomas Fischer
Ann K. Covington
Don A. McCubbin
James A. Offutt
H. Marshall Chatfield

Officers

The officers elected by the Board of Directors and serving as of December 31, 2004, were as follows:

John D. Duello @	President and Chief Executive Officer
Raymond E. Jones ◊	Executive Vice President and Secretary
Don A. McCubbin	Executive Vice President
Gary D. Myers	Executive Vice President
Jerry L. French ✧	Vice President, Treasurer and Assistant Secretary
S. Daniel Clapp	Vice President – Actuarial
Max T. Dills	Vice President – Administration
Terry L. Dykes	Vice President – General Services
Thomas N. Fischer	Vice President – Investments
Gary L. Ford	Vice President – Planning and Research
Patrick D. Gruber	Vice President – Claims
William C. Keithley	Vice President – Information Services
Patricia A. McDonald	Vice President – Life Operations
J. David Moore # @	Vice President – Marketing
Joe L. Moseley	Vice President – Public Affairs
L. Gerald Brooks	Assistant Treasurer

J. David Moore was elected as Executive Vice President on April 6, 2005 and was replaced by C. Tyler Bailey as Vice President – Marketing.

@ Mr. Moore replaced Mr. Duello as President, effective November 19, 2005. Mr. Duello retained the CEO position.

◊ Mr. Jones retired in April 2006. Randa Rawlins, the Company's General Counsel, was elected as Secretary in April 2006 to replace Mr. Jones.

✧ Mr. French was elected as Executive Vice President, effective January 1, 2006.

Conflict of Interest

The Company has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to the Articles of Incorporation during the period under examination. The Bylaws were amended and restated in February 2005 to specify the indemnification guidelines for employees, officers, and directors that are subject to litigation proceedings. The Bylaws were amended in October 2005 to add the Investment Committee as a required committee of the Board of Directors, revise the duties and requirements of elected officers, and other minor changes.

The minutes of the Board of Directors' meetings, committee meetings, and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers, or major corporate events during the examination period.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the parent, Shelter Mutual, on behalf of itself, Shelter Life, and its other insurance subsidiaries, for each year of the examination period.

Shelter Mutual, a property and casualty insurer, does not have any stockholders or controlling entity due to its formation as a mutual entity. The Company is ultimately owned by the policyholders of Shelter Mutual. Affiliated insurers that are also owned 100% by Shelter Mutual include Shelter Reinsurance, an international reinsurance company, and Shelter General, a property and casualty insurer.

Shelter Life has partial ownership of the following subsidiaries:

Shelter Financial Services, Inc. (SFS) – A holding company for Shelter Benefits Management, Inc.

Shelter Benefits Management, Inc. (Shelter Benefits) – Manages various agent and employee services for Shelter Mutual employees. Services provided include human resource functions, payroll services, and benefits administration for the employees, agents, and retirees of Shelter Mutual.

Shelter Enterprises, LLC – This is a small entity (only $5.7 million of total assets) that owns property and equipment and derives its income from leasing the assets to affiliates, including Shelter Mutual, and non-affiliates.

Daniel Boone Underwriters, LLC (DBU, LLC) – An insurance broker that places risks from leads generated by agents of the Shelter Insurance Companies. The risks placed are in lines of business that are not written by Shelter Mutual, Shelter General, or Shelter Life.

Daniel Boone Agency, Inc. – An insurance broker in the same manner as explained for Daniel Boone Underwriters, LLC above, except that this entity operates in Illinois only. This company was merged into Daniel Boone Underwriters, LLC in January 2006.

DBU, Inc. – An insurance broker in the same manner as explained for Daniel Boone Underwriters, LLC above, except that this entity operates in Mississippi only. This company was merged into Daniel Boone Underwriters, LLC in January 2006.

The operations of the Company's other affiliates are described as follows:

Shelter Financial Corporation (SFC) – A holding company for Shelter Bank.

Shelter Bank – A savings and loan company that sells certificates of deposits, individual retirement accounts, and provides auto loans and mortgage loans. It does not have any demand accounts (checking or savings). Its customers are mainly policyholders of Shelter Mutual and Shelter General, but customers may also come from the general public.

Shelter (UK) Holdings, Ltd. – A holding company for Shelter Dedicated, Ltd. and Commodore Underwriting Agencies, Ltd. The fair market value was written down to zero at the end of 2004. This entity is in the process of being dissolved.

Shelter Dedicated, Ltd. – A Lloyd's of London corporate member that accepts risks for a Lloyd's syndicate. Accepted risks for the policy year from January 1, 2001 through December 31, 2001. Due to the poor experience, no other risks were accepted after 2001. The company is now in run-off with a three-year accounting period ending December 31, 2003. It was sold to an unaffiliated entity for one British pound in December 2005.

Commodore Underwriting Agencies, Ltd. (Commodore) – An underwriter for risks taken by Shelter Dedicated, Ltd and other Lloyd's syndicates. As of the first quarter of 2003, the entity has no operations, employees, or significant assets and is pending dissolution.

Organizational Chart

The following table depicts Shelter Life's ownership and holding company system, as of December 31, 2004:

Company	Parent or Controlling Entity	Ownership
Shelter Mutual Insurance Company	Policyholders	100%
Shelter General Insurance Company	Shelter Mutual Insurance Company	100%
Shelter Enterprises, LLC	Shelter General Insurance Company Shelter Life Insurance Company Shelter Reinsurance Company	45% 45% 10%
Shelter Life Insurance Company	Shelter Mutual Insurance Company	100%
Shelter Reinsurance Company	Shelter Mutual Insurance Company	100%
Shelter (UK) Holdings, Ltd.	Shelter Reinsurance Company	100%
Shelter Dedicated, Ltd.	Shelter (UK) Holdings, Ltd.	100%
Commodore UW Agencies, Ltd.	Shelter (UK) Holdings, Ltd.	62.3%
Shelter Financial Corporation	Shelter Mutual Insurance Company	100%
Shelter Bank	Shelter Financial Corporation	100%
Shelter Financial Services, Inc.	Shelter Mutual Insurance Company Shelter General Insurance Company Shelter Life Insurance Company	79.5% 11% 9.5%
Shelter Benefits Management, Inc.	Shelter Financial Services, Inc.	100%
Daniel Boone Underwriters, LLC	Shelter Mutual Insurance Company Shelter General Insurance Company Shelter Life Insurance Company	40% 40% 20%
Daniel Boone Agency, Inc.	Daniel Boone Underwriters, LLC	100%
DBU, Inc.	Daniel Boone Underwriters, LLC	100%

Intercompany Agreements

The Company's intercompany agreements in effect, as of December 31, 2004, are outlined below.

1. **Type:** Agreement for Management Services and Facilities

   Affiliate: Shelter Mutual

   Effective: January 1, 1997

   Terms: Shelter Mutual agrees to provide the employees to operate all aspects of Shelter Life. Services to be provided include recordkeeping, processing, planning, budgeting, receipt and disbursement activities, and all work incidental to the operation of Shelter Life's business. Shelter Mutual agrees to provide office space, utilities, computer systems, office equipment, and supplies. In exchange for the services and facilities provided, Shelter Life will make monthly payments to Shelter Mutual. Payments will be calculated in accordance with the Joint Expense Allocation Agreement between Shelter Mutual and the Subsidiaries.

2. **Type:** Promissory Note

   Affiliates: Shelter Mutual, Shelter Benefits

   Effective: May 13, 1999

   Terms: Shelter Life promises to pay a principal sum of $100,223,532 to Shelter Mutual with an interest rate of 6.2%. Annual interest payments began on May 1, 2000 and continue on May 1 of each succeeding year. Annual principal payments of $20,000,000 plus interest were scheduled to begin on May 1, 2005 and continue on May 1 of each succeeding year. The final principal payment of $20,223,532 plus interest will be paid on May 1, 2009. This Note was immediately assigned by Shelter Mutual to Shelter Benefits upon execution on May 13, 1999.

3. **Type:** Joint Expense Allocation Agreement

   Affiliates: Shelter Mutual, Shelter General, Shelter Reinsurance, SFS, Daniel Boone Underwriters, LLC, Shelter Enterprises, LLC, Daniel Boone Agency, Inc., DBU, Inc., Shelter Benefits

   Effective: May 19, 1999 (original Agreement)
   December 1, 2004 (amended and restated)

   Terms: Each party agrees to pay its direct expenses in instances when each entity's actual usage can be determined. The parties agree to allocate any joint expenses for instances in which the identification and segregation of each entity's actual share is not practically feasible. The allocation methodologies for each category of joint expenses are as follows:

(1) Personnel – estimated or actual time
(2) Real Estate – square footage and employee count
(3) Investment – portfolio value
(4) Claims Adjustment (applicable to Shelter Mutual and Shelter General only) – incurred losses
(5) Reinsurance (applicable to Shelter Mutual and Shelter General only) – actual premiums and claims of each entity
(6) Other Expenses – assets, employee count, or written premium

4. **Type:** Tax Allocation Agreement

   Affiliates: Shelter Mutual, Shelter General, Shelter Reinsurance, SFS, SFC, Shelter Benefits, Shelter Bank

   Effective: No stated effective date. Applicable to 1999 and subsequent tax years.

   Terms: Shelter Mutual will file a consolidated federal income tax return on behalf of itself and its subsidiaries. The tax liability for each company will be the amount that would have been determined on a separate filing basis. The subsidiaries will pay their share of tax payments to Shelter Mutual within 10 days following any tax payments made by Shelter Mutual. Shelter Mutual will refund any amount due to the subsidiaries within 10 days after filing the consolidated return.

5. **Type:** Commission on Credit Insurance Agreement

   Affiliate: Shelter Bank

   Effective: April 1, 2004 and terminated July 1, 2005

   Terms: Shelter Bank sold credit insurance for the Company on loans issued to customers of Shelter Bank. The Company paid Shelter Bank a 5% commission on the net premiums for policies issued. Shelter Bank was eligible to receive a profit commission each year on credit policies it sold. The profit commission was equal to half of the net income on the credit policies in excess of a 5% net gain. The profit commission was limited to a maximum of 10% of net written premium for the credit policies.

6. **Type:** Credit Insurance Servicing Agreement

   Affiliate: Shelter Bank

   Effective: July 1, 2005

   Terms: Shelter Bank will service credit insurance policies of Shelter Life. The services provided by Shelter Bank shall include the following: completing the policy application for the agent, collecting an remitting premiums, tracking the premium balances, assisting customers with claim documents and cancellations, data reporting, and other services. The Company will pay Shelter Bank a monthly fee equal to $1.75 for each credit insurance policy in force at the beginning of each month.

Intercompany Transactions

Shelter Life sold structured settlement annuities to Shelter Mutual and Shelter General during the examination period. The structured settlements were used to provide periodic payouts of claim payments due under the terms of policies issued by Shelter Mutual and Shelter General. Shelter Mutual and Shelter General collectively paid $2,243,581, $943,754, and $2,561,350 to Shelter Life during 2002, 2003, and 2004, respectively, to purchase structured settlements.

Shelter Life is a named insured on a general liability insurance policy issued by Shelter Mutual. The policy insures the premises and operations of the Shelter Mutual and all named insureds. Premium for this policy is charged to Shelter Life through intercompany allocations under the Joint Expense Allocation Agreement.

The following table summarizes the payments made during the exam period, between Shelter Life and its affiliates, pursuant to intercompany agreements.

		Net Paid / (Received)		
Affiliate	Transaction / Agreement	2002	2003	2004
Shelter Mutual	Joint Expense Allocation	$ 6,787,994	$ 6,973,817	$ 8,606,135
Shelter Mutual	Tax Allocation	7,017,870	8,857,270	7,924,431
Shelter Benefits	Sale / Purchase of Investments	(7,768)	0	8,429,010
Shelter General	Sale of Investments	0	0	(992,000)
Shelter Mutual	Cash Dividends	12,000,000	12,000,000	5,000,000
Shelter Enterprises	Cash Dividends	(337,500)	(675,000)	(225,000)
DBU, LLC	Cash Dividends	(200,000)	(200,000)	(300,000)
Shelter Benefits	Promissory Note	6,213,859	6,213,859	6,213,859
Shelter Bank	Commission on Credit Insurance	0	0	34,210
TOTAL		$31,474,455	$33,169,946	$34,690,645

FIDELITY BOND AND OTHER INSURANCE

The Shelter Insurance Companies are named insureds on a financial institution bond. The bond provides employee fidelity coverage with a liability limit of $2,500,000 and a $50,000 deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Shelter Insurance Companies are also named insureds on the following insurance policies: property, general liability, umbrella excess liability, automobile physical damage and liability (self insured), aircraft physical damage and liability, workers compensation and employers liability, computer crime, kidnap and ransom / extortion, and earth movement (self insured).

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Shelter Life does not have any direct employees or agents. Employees and agents of the parent, Shelter Mutual, perform all functions necessary for the operation of Shelter Life, pursuant to the Agreement for Management Services and Facilities. As of December 31, 2004, there were 72 Shelter Mutual employees that work solely on the business functions of Shelter Life. Shelter Life reimburses Shelter Mutual for an allocated share of the payroll and benefits costs of the employees that provide services, pursuant to the Joint Expense Allocation Agreement. Both agreements are described further in the Intercompany Agreements section of this report.

A variety of standard benefits are provided to the Shelter Mutual employees and agents. These benefits include, but are not limited to, the following: medical insurance, dental insurance, life insurance, personal accident insurance, disability insurance, sick leave, and tuition reimbursement. Employees are also provided with a defined benefit pension plan and a 401(k) savings and profit sharing plan. Certain highly compensated employees are provided with a Supplemental Employee Retirement Plan (SERP).

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The funds on deposit as of December 31, 2004, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Bonds	$2,500,000	$2,929,715	$2,489,942

Deposits with Other States

The Company also has funds on deposit with other states. Those funds on deposit as of December 31, 2004, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Arkansas	U.S. Treasury Bonds	$500,000	$554,830	$503,825

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Shelter Life is licensed as a life, accident and health insurer by the Missouri Department of Insurance under Chapter 376 RSMo (Life and Accident Insurance). The Company is licensed and writes business in Missouri and 12 other Midwestern states, as follows:

Arkansas	Indiana	Kentucky	Nebraska
Colorado	Iowa	Louisiana	Oklahoma
Illinois	Kansas	Mississippi	Tennessee

The states with the largest percentage of 2004 direct written premiums and annuity considerations were Missouri (33% of total) and Arkansas (19% of total). The major lines of business for Shelter Life, based upon 2004 net written premiums, are as follows:

Line of Business	Percentage of Total Net Written Premiums
Ordinary Life	66.8%
Individual Annuities	15.8%
Group Accident and Health	12.7%
All Other	4.7%
Total	100.0%

Ordinary life products include whole life, term life, and universal life policies. Annuity products include single premium deferred, flexible premium deferred, and individual retirement account (IRA) options. The group accident and health business is mostly for employees, agents, and retirees of the Shelter Companies with a few non-affiliated groups in run-off.

The Company's products are marketed by approximately 1,300 captive agents, which also produce business for the parent, Shelter Mutual, and two affiliates, Shelter General and Shelter Bank. The Company also has 33 producers who sell policies through its bank alliance program with various non-affiliated banks in Oklahoma and Missouri. Employees of the banks sell products of the Shelter Companies in conjunction with auto and mortgage loans financed by the banks. Shelter Mutual also has a marketing staff that uses various methods of advertising and direct mailings to promote the products of Shelter Life and affiliates.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a separate market conduct report. However, no market conduct examinations for the Company were performed by Missouri or any other states during the examination period. The most recent MDI market conduct examination report was issued in 2000.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2002	2003	2004
Direct Business	$106,802,635	$99,760,469	$105,099,854
Reinsurance Assumed	0	0	0
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	(3,632,098)	(5,125,066)	(6,006,824)
Net Premiums Written	**$103,170,537**	**$94,635,403**	**$99,093,030**

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Shelter Life cedes only small amounts of risks for its actively written life business. Total life reserves ceded, as of December 31, 2004, were only $5.3 million. The maximum retention for any one life policy is $650,000 per insured. The Company does not have any significant ceded risks for active A&H business, which consists of a group policy for the employees, agents, and retirees of the Shelter Insurance Companies. Total A&H reserves ceded, as of December 31, 2004, were only $1.3 million for disability policies in run-off.

The Company has an automatic coinsurance agreement, effective December 1, 1999, with Generali USA Life Reassurance Company (Generali USA), that covers the Company's 10, 20, and 30 year, level term policies. Shelter Life's retention is 50% of the face amount of each policy with a maximum retention of $650,000 per policy. A jumbo limit of $20,000,000 applies to any one insured. This treaty accounted for $3.6 million or 68% of total life reserves ceded, as of December 31, 2004. The treaty was terminated for new business effective October 1, 2005.

A new automatic coinsurance agreement, effective October 1, 2005, was executed with Generali USA, RGA Reinsurance Company, and Munich American Reassurance Company, that covers the Company's 10, 20, and 30 year, level term policies. Shelter Life's retention is 50% of the face amount of each policy with a maximum retention of $650,000 per policy. Risks ceded under the treaty terms are split equally among the three reinsurers.

The Company has a reinsurance agreement, effective January 1, 1994, with Employers Reassurance Corporation (ERAC), that covers all of the Company's individual life risks. Shelter Life retains the first $400,000 of risk for covered policy. ERAC's reinsurance limit is $1,000,000 per policy. One exception applies to the 10, 20 and 30 year, level term policies, which are also covered under the Generali USA agreement described above. For these term policies, ERAC assumes the excess over the Company's $650,000 maximum retention. This treaty was terminated for new business, effective November 2, 2003.

All risks for life policies (excluding level term) sold since the termination of the ERAC treaty are reinsured on a facultative basis with various reinsurers. Shelter Life has a $650,000 retention for all risks under the facultative agreements.

Shelter Life has a two-layer catastrophe program. The first layer of coverage is provided by a catastrophe excess of loss agreement with Manufacturers Insurance Company, effective April 1, 2004. A catastrophic event is defined as a single occurrence involving three or more insureds of the Company. The first layer coverage is $5,000,000 in excess of the Company's retention of $2,000,000 per catastrophic event. The second layer is provided through a catastrophe excess of loss agreement with several participating reinsurers, effective April 1, 2004. The second layer coverage is $30,000,000 in excess of the Company's retention of $7,000,000 per event.

Two new catastrophe reinsurance agreements were executed, effective April 1, 2005. The first layer retentions were increased and a higher layer was added, in comparison to the retentions and coverages that existed for the 2004 contract year. The first layer of catastrophe coverage, effective April 1, 2005, is $30,000,000 in excess of the Company's retention of $7,000,000 per catastrophic event. Four reinsurers are participants in the first layer. A second layer is provided through a separate agreement with the same four reinsurers as in the first layer agreement. The second layer coverage is $25,000,000 in excess of the Company's retention of $37,000,000 per event.

ACCOUNTS AND RECORDS

General

The CPA firm, PricewaterhouseCoopers, LLP, (PWC) of St. Louis, Missouri, issued audited statutory financial statements of the Company for 2002 and 2003. The CPA firm, Ernst & Young, LLP, of Kansas City, Missouri, issued the audited financial statements of the Company for 2004. The Company stated that the change of CPA firms was strictly due to a competitive bid process and that there was no disagreement or issues with PWC that led to the change.

The actuarial opinion regarding the Company's policy and claim reserves was issued by Donald W. Hagen, FSA, MAAA, for all years in the examination period. Mr. Hagen was employed by Shelter Mutual as the Chief Actuary for Shelter Life, until he retired effective January 3, 2005.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Shelter Life for the period ending December 31, 2004. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets
as of December 31, 2004

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$737,151,816	$ 0	$737,151,816
Common Stocks	47,614,050	0	47,614,050
Cash and Short-Term Investments	19,613,146	0	19,613,146
Contract Loans	27,908,952	202,012	27,706,940
Other Invested Assets	2,570,575	0	2,570,575
Investment Income Due and Accrued	10,829,631	0	10,829,631
Uncollected Premiums and Agents' Balances in the Course of Collection	363,622	0	363,622
Deferred Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due	12,170,920	0	12,170,920
Accrued Retrospective Premiums	290,073	0	290,073
Amounts Recoverable from Reinsurers	188,257	0	188,257
Net Deferred Tax Asset	1,940,728	0	1,940,728
Guaranty Funds Receivable or on Deposit	1,988,384	647,440	1,340,944
EDP Equipment and Software	5,127	0	5,127
Furniture and Equipment	11,370	11,370	0
Receivable from Parent, Sub., and Affiliates	56,146	0	56,146
Health Care and Other Amounts Receivable	8,108	0	8,108
Other Assets Non-Admitted	51	51	0
Agg. Write-Ins for Other than Invested Assets:			
State Income Tax Recoverable	33,219	0	33,219
TOTAL ASSETS	**$862,744,175**	**$860,873**	**$861,883,302**

Liabilities, Surplus and Other Funds
as of December 31, 2004

Aggregate Reserve for Life Policies and Contracts	$503,197,842
Aggregate Reserve for A&H Policies	15,762,353
Liability for Deposit-Type Contracts	65,031,520
Policy and Contract Claims – Life	3,862,546
Policy and Contract Claims – Accident and Health	4,066,703
Policyholders' Dividends Due and Unpaid	43,284
Policyholders' Dividends Payable in Following Year	4,595,613
Premiums Received in Advance	209,050
Other Amounts Payable on Reinsurance	145,971
Interest Maintenance Reserve	2,086,476
Commissions and Expense Allowances Payable	154,326
General Expenses Due or Accrued	134,894
Taxes, Licenses and Fees Due or Accrued	2,316,155
Federal Income Taxes Due or Accrued	1,902,760
Unearned Investment Income	33,398
Remittances and Items Not Allocated	341,098
Asset Valuation Reserve	8,284,738
Payable to Parent, Subsidiaries and Affiliates	106,434,924
Aggregate Write-Ins for Liabilities:	0
Policy Loan Interest Adjustment Due Insureds	148,836
Accounts Payable – Escheated Checks	1,208
TOTAL LIABILITIES	**$718,753,695**
Common Capital Stock	12,000,000
Unassigned Funds (Surplus)	131,129,606
Capital and Surplus	**$143,129,606**
TOTAL LIABILITIES AND SURPLUS	**$861,883,301**

Summary of Operations
For the Year Ended December 31, 2004

Premiums and Annuity Considerations	$ 99,093,030
Considerations for Supp. Contracts with Life Contingencies	223,150
Net Investment Income	38,413,466
Amortization of Interest Maintenance Reserve	367,306
Commission and Expense Allowances on Reins. Ceded	1,723,630
Miscellaneous Income	11,174
TOTAL	**$139,831,756**
Death Benefits	20,148,108
Matured Endowments	261,403
Annuity Benefits	7,171,144
Disability Benefits and Benefits Under A&H Policies	15,828,761
Surrender Benefits and Withdrawals for Life Contracts	15,419,850
Interest and Adjust. on Policy or Deposit-Type Contract Funds	3,057,440
Payments on Supp. Contracts with Life Contingencies	402,803
Increase in Aggregate Reserves for Life, A&H Policies	25,429,932
Commissions on Direct Business	6,304,802
General Insurance Expenses	15,484,556
Insurance Taxes, Licenses and Fees	2,116,677
Increase in Loading on Deferred and Uncollected Premiums	482,946
TOTAL	**$112,108,422**
NET GAIN FROM OPERATIONS	$ 27,723,334
Dividends to Policyholders	4,785,958
Federal Income Taxes Incurred	8,018,723
Net Realized Capital Gains Transferred to the IMR	2,681,270
NET INCOME	**$ 17,599,923**
CAPITAL AND SURPLUS:	
Capital and Surplus, December 31, 2003	$134,493,979
Net Income	17,599,923
Change in Net Unrealized Capital Gains or (Losses)	(261,875)
Change in Deferred Income Tax	(476,318)
Change in Non-Admitted Assets	(129,297)
Change in Asset Valuation Reserve	(3,096,802)
Dividends to Stockholders	(5,000,000)
CAPITAL AND SURPLUS, DECEMBER 31, 2004	**$143,129,610**

Notes to the Financial Statements

None.

Examination Changes

None.

General Comments and/or Recommendations

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Shelter Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, Shannon Schmoeger, CFE, Larry Kleffner, CFE, Karen Baldree, CPA, CFE, Al Garon, CFE, and Andy Balas, CFE, examiners for the Missouri Department of Insurance, also participated in this examination. The firm of Milliman, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of Boone)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Shelter Life Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim L. Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 21st day of June, 2006.

My commission expires: May 1, 2008 Debbie J. Nolke
Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires May 1, 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese
Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance